

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON ILEMBE DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the iLembe District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the iLembe District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material debt impairment

8. As disclosed in note 3 to the financial statements, material losses to the amount of R18,74 million were incurred as a result of the provision for doubtful debts.

9. As disclosed in note 3 to the financial statements, material losses of R71,84 million were incurred as a result of the write-off of irrecoverable trade receivables from exchange transactions.

Material losses

10. As disclosed in note 35.9 to the financial statements, material losses estimated to be R617 000 were incurred as a result of the misappropriation of cash collections by employees of the municipality.
11. As disclosed in note 35.8 to the financial statements, material water distribution losses of 11,93 million kilolitres amounting to R31,40 million were incurred as a result of illegal connections, ageing infrastructure, overflows and service leaks.

Significant uncertainty

12. With reference to note 42 to the financial statements, the municipality is party to unresolved litigation between South African Local Government Association (SALGA) and labour unions represented at South African Local Government Bargaining Council regarding implementation of wage agreement. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Irregular expenditure

13. As disclosed in note 34.3 to the financial statements, irregular expenditure of R15,72 million was incurred during the year, mainly as a result of contracts awarded to suppliers in contravention of the Municipal Supply Chain Management Regulations (GRN 868 of 30 May 2005) (MSCMR).

Restatement of corresponding figures

14. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information*.
18. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

19. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

20. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

21. Of the total number of 292 targets planned for the year, 123 were not achieved during the year under review. This represents 42% of the total planned targets that were not achieved during the year under review. This was mainly due to a delay in implementing water and sanitation projects.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

23. The revised financial statements submitted for auditing on 4 September 2013 were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of the losses and correction of prior period error disclosure identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

24. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA..

Expenditure management

25. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

26. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

28. The accounting officer and management did not exercise effective oversight responsibility to ensure compliance with MSCMR, effective revenue and debtor's management and effective assets management.

Financial management

29. The accounting officer, chief financial officer and the asset manager did not implement adequate asset management to ensure that all assets belonging to the municipality were correctly recorded and adequately reconciled to the general ledger.

30. Management did not implement adequate expenditure management over the procurement of goods and services to ensure compliance with the requirements of the MSCMR.
31. The chief financial officer did not perform adequate review of financial statements prior to submission.
32. The accounting officer, chief financial officer and revenue manager did not implement adequate revenue and debtors management controls.

OTHER REPORTS

Investigations

Investigations in progress

33. Two investigations are in progress relating to the misappropriation of cash collections and possible irregularities in the procurement of security services.

Investigations completed during the financial year

34. The investigations into irregularities related to expenditure on SALGA games and the 2010 FIFA World Cup expenditure were completed during the period.

Auditor - General
Pietermaritzburg

30 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

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